
REPORT

AUDIT OF FINANCIAL STATEMENTS

for

CLERMONT COUNTY SEWER DISTRICT

WATER SYSTEM

for the years ended December 31, 1999 and 1998

Foxx & Company
Certified Public Accountants

REPORT

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for

CLERMONT COUNTY SEWER DISTRICT

WATER SYSTEM

for the years ended December 31, 1999 and 1998

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OFFICE OF THE AUDITOR

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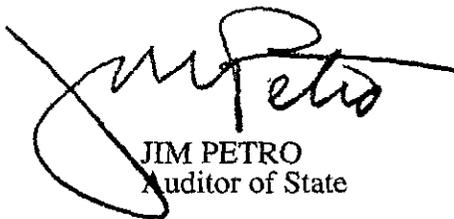
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The Honorable Board of County Commissioners
Clermont County Water and Sewer District
Clermont County, Ohio

We have reviewed the Independent Auditor's Report of the Clermont County Water & Sewer District, Clermont County, prepared by Foxx & Company, for the audit period January 1, 1999 through December 31, 1999. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Clermont County Water & Sewer District is responsible for compliance with these laws and regulations.



JIM PETRO
Auditor of State

March 20, 2000



Foxx & Company
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Board of County Commissioners
Clermont County, Ohio:

We have audited the accompanying financial statements of the Clermont County Sewer District (District), Water System, Batavia, Ohio, as of and for the years ended December 31, 1999 and 1998 as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Water System and are not intended to present fairly the financial position of Clermont County, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clermont County Sewer District, Water System, as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2000 on our consideration of the Districts' internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

Foxx & Company

Cincinnati, Ohio
February 18, 2000

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
BALANCE SHEETS
December 31, 1999 and 1998**

ASSETS

	<u>1999</u>	<u>1998</u>
Current assets:		
Equity in pooled cash and cash equivalents	\$ 3,174,125	\$ 1,789,525
Held by Trustees:		
Cash equivalents in segregated accounts	694,253	2,495,678
Investments in segregated accounts	22,961,550	19,114,810
Accounts receivable (net of allowance for doubtful accounts of \$15,013-1999; \$12,200-1998)	1,635,130	1,582,337
Inventory of supplies at cost	172,533	179,307
Prepaid expenses	<u>-</u>	<u>41,264</u>
Total current assets	<u>28,637,591</u>	<u>25,202,921</u>
Restricted assets:		
Equity in pooled cash and cash equivalents	600	-
Held by Trustees:		
Cash equivalents in segregated accounts	219,615	268,097
Investments in segregated accounts	7,008,372	7,116,967
Retainage accounts	13,694	40,241
Accrued interest	<u>133,639</u>	<u>90,087</u>
Total restricted assets	<u>7,375,920</u>	<u>7,515,392</u>
Property, plant and equipment:		
Land	586,736	586,736
Structures	35,357,688	35,357,688
Machinery	76,005,954	72,958,361
Furniture	496,124	495,425
Autos and trucks	889,722	888,591
Less: Accumulated depreciation	<u>(36,715,045)</u>	<u>(33,486,805)</u>
Net property plant and equipment	76,621,179	76,799,996
Construction in progress	<u>1,278,456</u>	<u>651,024</u>
Total property, plant and equipment	<u>77,899,635</u>	<u>77,451,020</u>
Other assets:		
Unamortized financing costs	822,139	865,409
Due from other funds	257,814	294,644
Grant receivable	<u>14,886</u>	<u>-</u>
Total other assets	<u>1,094,839</u>	<u>1,160,053</u>
Total assets	<u>\$115,007,985</u>	<u>\$111,329,386</u>

(continued)

The notes to the financial statements are an integral part of the financial statements.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
BALANCE SHEETS
(continued)**

December 31, 1999 and 1998

LIABILITIES AND EQUITY

	<u>1999</u>	<u>1998</u>
Current liabilities:		
Accounts payable	\$ 195,181	\$ 262,959
Accrued wages and benefits	<u>398,240</u>	<u>443,307</u>
Total current liabilities	<u>593,421</u>	<u>706,266</u>
Payable from restricted assets:		
Current portion of long-term debt	1,510,000	1,445,000
Accounts payable	60,625	261,502
Accrued interest payable	220,615	226,034
Retainage payable	13,694	40,241
Maintenance bond payable	<u>35,525</u>	<u>25,199</u>
Total payable from restricted assets	<u>1,840,459</u>	<u>1,997,976</u>
Long-term debt	<u>46,075,000</u>	<u>47,585,000</u>
Total liabilities	<u>48,508,880</u>	<u>50,289,242</u>
Fund equity:		
Contributed capital	44,150,894	40,687,551
Retained earnings:		
Reserve for restricted assets	5,415,461	5,517,416
Unreserved	<u>16,932,750</u>	<u>14,835,177</u>
Total fund equity	<u>66,499,105</u>	<u>61,040,144</u>
Total liabilities and fund equity	<u>\$115,007,985</u>	<u>\$111,329,386</u>

The notes to the financial statements are an integral part of the financial statements.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN EQUITY**

for the years ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Operating revenues:		
Charges for services:		
Service charges	\$11,074,323	\$ 10,069,150
New meters and services	924,235	782,782
All other revenues	<u>216,912</u>	<u>180,302</u>
Total operating revenues	<u>12,215,470</u>	<u>11,032,234</u>
Operating expenses:		
Personnel services	2,612,301	2,635,082
Contractual services	550,128	578,457
Maintenance and repair	234,114	231,361
Utilities	855,397	803,114
Materials and supplies	1,188,868	1,020,038
Depreciation	3,228,240	3,070,324
Other	<u>21,820</u>	<u>23,591</u>
Total operating expenses	<u>8,690,868</u>	<u>8,361,967</u>
Income from operations	<u>3,524,602</u>	<u>2,670,267</u>
Nonoperating revenues (expenses):		
Interest income	1,508,642	1,444,997
Change in fair value of investments	(287,367)	495,753
Interest expense	<u>(2,750,259)</u>	<u>(2,810,269)</u>
Total nonoperating revenues (expenses)	<u>(1,528,984)</u>	<u>(869,519)</u>
Net income	<u>\$ 1,995,618</u>	<u>\$ 1,800,748</u>

(continued)

The notes to the financial statements are an integral part of the financial statements.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN EQUITY
(continued)**

for the years ended December 31, 1999 and 1998

	<u>Contributed Capital</u>	<u>Retained Earnings</u>	<u>Total (Memorandum Only)</u>
Balances, December 31, 1997	\$37,008,337	\$18,551,845	\$55,560,182
Net income	-	1,800,748	1,800,748
Additions to contributed capital:			
Contributed assets by developers	1,857,225	-	1,857,225
System capacity charges	1,626,515	-	1,626,515
Proceeds from assessment bonds	185,000	-	185,000
Other proceeds from assessments	<u>10,474</u>	<u>-</u>	<u>10,474</u>
Balances, December 31, 1998	40,687,551	20,352,593	61,040,144
Net income	-	1,995,618	1,995,618
Additions to contributed capital:			
Contributed assets by developers	1,451,797	-	1,451,797
System capacity charges	1,996,085	-	1,996,085
Grant payments earned and other	<u>15,461</u>	<u>-</u>	<u>15,461</u>
Balances, December 31, 1999	<u>\$44,150,894</u>	<u>\$22,348,211</u>	<u>\$66,499,105</u>

The notes to the financial statements are an integral part of the financial statements.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
STATEMENTS OF CASH FLOWS
for the years ended December 31, 1999 and 1998**

	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income from operations	\$ 3,524,602	\$ 2,670,267
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,228,240	3,070,324
Change in allowance for uncollectible accounts	2,813	(852)
Decrease (increase) in assets:		
Accounts receivable	(55,606)	(139,380)
Inventory of supplies at cost	6,774	2,584
Prepaid expenses	41,264	14,403
Increase (decrease) in liabilities:		
Accrued wages and benefits	(45,067)	10,659
Operating accounts payable	<u>(67,778)</u>	<u>40,997</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>6,635,242</u>	<u>5,669,002</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principle paid on revenue bonds	(1,445,000)	(1,385,000)
Interest paid on revenue bonds	(2,712,408)	(2,771,962)
Construction of capital assets	(2,440,818)	(1,901,567)
Proceeds from sale of fixed assets	36,830	36,831
Retainage payments	(26,546)	(85,452)
Proceeds from maintenance bonds	10,326	3,788
Proceeds from assessment bonds	-	185,000
Proceeds from assessments	15,461	10,474
System capacity charges	<u>1,996,085</u>	<u>1,626,515</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(4,566,070)</u>	<u>(4,281,373)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(26,403,600)	(20,947,743)
Investment sales	22,378,088	18,131,668
Interest received on investments	<u>1,465,090</u>	<u>1,450,281</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(2,560,422)</u>	<u>(1,365,794)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>(491,250)</u>	<u>21,835</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>4,593,541</u>	<u>4,571,706</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,102,291</u>	<u>\$ 4,593,541</u>
NON-CASH TRANSACTIONS:		
Contributions from developers	<u>\$ 1,451,797</u>	<u>\$ 1,857,225</u>

The notes to the financial statements are an integral part of the financial statements.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 1999 and 1998

1. Summary of Significant Accounting Policies

A. Organization

The Clermont County Sewer District (District), which includes a waterworks system and a sewer system, operates as a separate proprietary or individual enterprise fund under the direction of the Clermont County Board of Commissioners. The financial statements covering the sewer system are issued separately from the waterworks system. The County issues a separate Comprehensive Annual Financial Report which contains this waterworks system as a separate enterprise fund of the County.

The customers serviced by the District are located primarily within Clermont County with a small portion located in Hamilton County. Customers consist of residential, industrial, and commercial accounts.

B. Basis of Accounting

The accompanying financial statements were prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting", the district applies all GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board of Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

C. Property, Plant and Equipment

Property, plant and equipment are stated at historical cost and updated for the cost of additions and retirements during the year. Routine maintenance and repairs are expensed as incurred. Contributed fixed assets are recorded at their fair market values as of the date donated, and depreciation on those assets is included in the Statements of Revenues and Expenses. Interest during construction is capitalized until substantial completion of the project. Depreciation is computed on the straight-line basis over the estimated useful life of the asset as follows:

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 1999 and 1998

Description	Estimated Lives (Years)
Autos and trucks	3-5
Machinery, equipment, furniture and fixtures	5-20
Water treatment plants and structures	20-50
Distribution mains	50

D. Inventory

Supplies, materials, and fuel are stated at the lower of cost or market on a first-in, first-out (FIFO) basis.

E. Statement of Cash Flows

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments with maturities of less than three months (including restricted assets) to be cash equivalents.

F. Unamortized Financing Costs

The unamortized financing costs include bond discounts, consulting fees, and attorney's fees incurred in connection with the revenue bond obligations. These costs are capitalized and are amortized on the straight-line method over the lives of the revenue bonds and are included as interest expense. The amount amortized amounted to \$43,270 in 1999 and 1998.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 1999 and 1998

G. Insurance

The District participates in Ohio Workers' Compensation and Ohio State Unemployment programs. The District maintains insurance coverage for liability and property damage through policies with private carriers.

H. Investments

In accordance with GASB Statement 31, investments are recorded at fair value as stated by the District's investment Trustees.

I. Compensated Absences

A liability is provided for accumulated unpaid sick, vacation and compensated time benefits when earned by employees. Ohio law requires that vacation time not be accumulated for more than three years. Employees with a minimum of one year of service become vested in accumulated unpaid vacation time. Unused vacation is payable upon termination of employment. Unused sick time may be accumulated until retirement. Employees eligible to retire, with a minimum of ten years of service, are paid one-fourth of accumulated sick time upon retirement. However, if employees earned sick leave prior to January 23, 1984, they are eligible for 100 percent conversion.

Such payment may not exceed the value of thirty days of accrued but unused sick leave. In general, employees are eligible to be paid for unused compensation time upon termination of employment. Sick, vacation and compensation payments are made at the employee's current wage rate.

J. Reserve of Fund Equity

The reserve of retained earnings represents amounts for restricted assets in excess of restricted liabilities that have been designated for a specific use.

K. System Capacity Charges

System capacity charges are recorded as contributed capital as they represent one-time charges to customers for the privilege of accessing the water system.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 1999 and 1998

2. Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments at December 31, 1999 are summarized below:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Held by the Clermont County Treasurer:			
Unrestricted pooled cash, revenue account	\$3,174,125	\$ -	\$ 3,174,125
Restricted pooled cash, construction account	600	-	600
Retainage accounts	13,694	-	13,694
Amounts held by trustees:			
Bond account	182,549	4,142,810	4,325,359
Replacement and improvement account	37,066	2,865,562	2,902,628
Surplus account	<u>694,253</u>	<u>22,961,550</u>	<u>23,655,803</u>
 Total	 <u>\$4,102,287</u>	 <u>\$29,969,922</u>	 <u>\$34,072,209</u>

Cash, cash equivalents and investments at December 31, 1998 are summarized below:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Held by the Clermont County Treasurer:			
Unrestricted pooled cash, revenue account	\$1,789,525	\$ -	\$ 1,789,525
Retainage accounts	40,241	-	40,241
Amounts held by trustees:			
Bond account	225,862	4,222,162	4,448,024
Replacement and improvement account	42,235	2,894,805	2,937,040
Surplus account	<u>2,495,678</u>	<u>19,114,810</u>	<u>21,610,488</u>
 Total	 <u>\$4,593,541</u>	 <u>\$26,231,777</u>	 <u>\$30,825,318</u>

Pooled Cash held by Clermont County Treasurer

Operating and construction account funds, except for trustee funds described below, are controlled on the District's behalf by the Clermont County Treasurer's Office (County). Cash is deposited into bank accounts of the County for which the County Treasurer maintains accountability. The pooled cash of the County includes the proportionate share belonging to the District. The County is responsible for the collateralization of pooled cash balances belonging to the District. The collateralization of County funds is discussed in the County's 1999 Comprehensive Annual Financial Report.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 1999 and 1998

Retainage Accounts

Retainage accounts represent bank deposit accounts controlled by the District. All of these accounts represent cash retained from construction contractor payments until satisfactory completion of projects. The District's and the contractor's approval are required before funds can be released. Individual retainage accounts are collateralized by insurance provided by the Federal Deposit Insurance Corporation up to \$100,000. Any excess is collateralized through the use of the Federal Reserve book entry system to hold U.S. Government securities as collateral. The securities are registered in the name of the financial institution, not in the name of the District. As of December 31, 1999 retainage accounts totaled \$13,694 which was covered by FDIC Insurance.

Amounts Held by Trustees

Bond legislation requires the establishment of various accounts to be held by trustees. The District may invest these funds in direct obligations of the United States of America or highest rated bonds, notes or other evidences of indebtedness having maturity dates no longer than five years from the date of such investment.

Trustee account investments at December 31, 1999 are categorized according to credit risk into the following categories: (1) insured or registered, or securities held by the District's or its agent (bank trust department) in the District's name; or (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name; or (3) uninsured, unregistered securities held by the counterparty, or its trust department or agent but not in the District's name. Money market funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	<u>Category</u> <u>2</u>	<u>Reported</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
Categorized Investments:			
U.S. Treasury Notes	\$11,962,192	\$11,962,192	\$11,962,192
U.S. Treasury Bills	18,007,730	18,007,730	18,007,730
Money Market Funds	<u>-</u>	<u>913,868</u>	<u>913,868</u>
Total	<u>\$ 29,969,922</u>	<u>\$30,883,790</u>	<u>\$30,883,790</u>

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 1999 and 1998

3. Restrictions on Assets

The Trust Agreement for the Revenue Bonds requires the establishment of certain trust accounts, including a Bond Account, Bond Reserve Account, Replacement and Improvement Account, Construction Account, and a Surplus Account. Cash and investments in the accounts are held by trustee financial institutions.

The Bond Account is used to accumulate periodic principal and interest payments. The Bond Reserve Account is to be funded in an amount equal to the maximum annual bond principal and interest requirement. The Replacement and Improvement Account is to be maintained with a balance equal to the greater of five percent of the amount of bonds outstanding or \$2,000,000. The Surplus Account accumulates any remaining net revenues which are available for several purposes at the direction of the County Commissioners.

4. Property, Plant and Equipment

The following summarizes the changes to property plant and equipment during 1999.

	Balance January 1, <u>1999</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>1999</u>
Land	\$ 586,736	\$ -	\$ -	\$ 586,736
Structure	35,357,688	-	-	35,357,688
Machinery	72,958,360	3,047,594	-	76,005,954
Furniture	495,425	699	-	496,124
Autos and trucks	<u>888,591</u>	<u>1,131</u>	-	<u>889,722</u>
	<u>\$110,286,800</u>	<u>\$3,049,424</u>	<u>\$ -</u>	113,336,224
Accumulated depreciation				<u>(36,715,045)</u>
Net property, plant and equipment				<u>\$ 76,621,179</u>
Construction in progress as of January 1, 1999				\$ 651,024
Additions				2,035,304
Construction projects closed				<u>(1,407,872)</u>
Construction in progress as of December 31, 1999				<u>\$ 1,278,456</u>

Assets contributed by developers and others in 1999 amounted to \$1,451,797.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 1999 and 1998

5. Long-Term Debt

For the year ended December 31, 1999, changes in long-term debt consisted of the following:

	<u>Interest Rate</u>	<u>Maturity</u>	<u>Balance January 1, 1999</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 1999</u>
Revenue bonds:						
1993	2.6-5.8%	2018	<u>\$49,030,000</u>	\$ -	<u>\$(1,445,000)</u>	<u>\$ 47,585,000</u>
Total			<u>\$49,030,000</u>	\$ -	<u>\$(1,445,000)</u>	47,585,000
Less current portion						<u>(1,510,000)</u>
Long-term portion						<u>\$46,075,000</u>

Principal and interest payments on long-term debt for the next five years and thereafter are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 1,510,000	\$ 2,647,383	\$ 4,157,383
2001	1,580,000	2,576,413	4,156,413
2002	1,660,000	2,498,993	4,158,993
2003	1,740,000	2,415,993	4,155,993
2004	1,830,000	2,327,253	4,157,253
Thereafter	<u>39,265,000</u>	<u>18,934,063</u>	<u>58,199,063</u>
	<u>\$47,585,000</u>	<u>\$31,400,098</u>	<u>\$78,985,098</u>

The District issued Waterworks System Revenue Improvement and Refunding Bonds, Series 1993, dated May 1, 1993 to advance refund the outstanding Series 1977, Series 1987, Series 1989 and Series 1991 water revenue bonds of the County and to finance a portion of the costs of the 1993 Project as defined by the Official Statement.

The remaining balance of the Series 1993 bonds will mature on December 1 in various amounts ranging from \$1,510,000 in 2000 to \$17,610,000 in 2018, subject to prior mandatory sinking fund redemptions. Interest, at rates varying from 2.6 percent to 5.8 percent per annum, is payable semi-annually on June 1 and December 1. The District is to

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 1999 and 1998

provide funding for the retirement of principal amounts when they mature, by funding the Bond Account in varying amounts ranging from \$1,510,000 in 2000 to \$3,930,000 in 2018.

The revenue bond issues are subject to optional redemption in whole or in part at various redemption prices plus accrued interest for portions maturing at various times in the future. In addition, portions of these issues are subject to mandatory sinking fund redemption prior to maturing, from funds in the bond account created by the Bond Legislation through the Trustee without action by the County.

Bond Legislation provides that if the surplus account is funded in excess of 10 percent of the aggregate principal amount outstanding on all bonds and other obligations and the reserve account and replacement and improvement accounts are at the required balances, the County will charge rates for the services and facilities of the system sufficient for the excess of revenues over expenditures to equal not less than 110 percent of the aggregate amount of principal and interest requirements on the bonds payable during the year (coverage ratio).

The coverage ratio computed under the Bond Legislation utilizing the 110 percent level is as follows:

Net income	\$ 1,995,618
Add items to convert net income to pledged revenues:	
Interest paid on bonds	2,706,989
Deferred debt amortization	43,270
Depreciation expense	3,228,240
System capacity charges	<u>1,996,085</u>
Net pledged revenues	<u>\$ 9,970,202</u>
Debt service requirement during 1999	<u>\$ 4,157,407</u>
Coverage ratio	<u>240%</u>
Required coverage ratio	<u>110%</u>

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 1999 and 1998

6. Defeased Debt

The District defeased various general obligation serial bonds and revenue serial bonds through refinancing and operations. Separate irrevocable trust funds were established and funded to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is not included in the financial statements.

At December 31, 1999, and 1998, the total amount of defeased debt outstanding amounted to \$15,175,000 and \$25,665,000, respectively.

7. Other Contingent Liabilities

The Ohio Revised Code provides for the issuance of special assessment bonds for water improvements. Under the Code, such special assessment obligations are issued by the Board of County Commissioners. As general obligation debt, the full faith, credit and revenue of the County has been pledged as security for the outstanding special assessment obligations. These bonds are reflected on the County's financial statements as general obligation bonds of the County.

If the special assessments are not paid by the taxpayers or prove to be insufficient to pay the debt service, it is the obligation of the County to pay the debt from whatever source of funds is available to it, including, but not limited to, the funds of the District. During 1999 and 1998, no payments were made by the District to the County's debt service fund.

8. Pension and Retirement

All District full-time employees participate in the Public Employees' Retirement System administered by the State of Ohio (State PERS). The plan is a cost-sharing, multiple-employer, public employee retirement system. The State PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The State PERS issues a stand-alone financial report. Interested parties may obtain a copy by written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 1999 and 1998

Income sources for the pension system include both employee and employer contributions as well as income earned on investments. Employee contributions rates are 8.5 percent. The 1999 employer contribution rate was 13.55 percent of covered payroll. Employer contributions to the pension funds are current and fully met as required by law. Annual contribution rates are determined by Ohio Revised Code.

The District's contributions to PERS for the years ending December 31, 1999, 1998 and 1997 were \$270,422, \$279,545 and \$271,924, respectively; 72 percent has been contributed for 1999 and 100 percent for 1998. A total of \$75,958 representing the unpaid contributions for 1999 is recorded as a liability.

Other Post-Employment Benefits PERS provides post retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the employer contribution rate used to fund health care was 4.2 percent and 5.11 percent for 1998 and 1997, respectively (latest information available).

The PERS OPEB are financed through employer contributions and investment earnings there on. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to PERS OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are use to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

PERS unaudited estimated net assets available for future OPEB payments at December 31, 1998, (latest information available) were \$9,447,325,318. Expenditures for OPEB during 1998 were \$440,596,663. The number of benefit recipients eligible for OPEB at December 31, 1998 was 115,579.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 1999 and 1998

During 1999 and 1998, \$83,821 and \$86,649 respectively, of the District's total contribution to PERS was used for post-employment benefits.

9. Interfund Transactions

The District is charged by other County funds for administrative services based on a cost allocation plan. The charges for 1999 and 1998 were \$128,952 and \$129,655 respectively and are classified as contractual services.

During 1997, the Board of County Commissioners approved the sale of certain fixed assets of the District to the general fund of the County. Payments for the assets are to be made over 10 years. The sale of the assets results in the District recognizing amounts due from other funds totalling \$257,814 and \$294,645 at December 31, 1999 and 1998, respectively.

10. Subsequent Events

On February 10, 2000, the Board of County Commissioners approved contracts with vendors for the operations of both the water and sewer systems. The vendors are responsible for the daily operations of treatment plants and distribution/collection systems as well as customer billing and collections. Vendors will collect operating revenues on behalf of the District and will be paid a monthly lump sum amount for operating expenses.

REPORT

AUDIT OF FINANCIAL STATEMENTS

for

CLERMONT COUNTY SEWER DISTRICT

SEWER SYSTEM

for the years ended December 31, 1999 and 1998

Foxx & Company
Certified Public Accountants

REPORT

AUDIT OF FINANCIAL STATEMENTS

for

CLERMONT COUNTY SEWER DISTRICT

SEWER SYSTEM

for the years ended December 31, 1999 and 1998

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Foxx & Company
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Board of County Commissioners
Clermont County, Ohio:

We have audited the accompanying financial statements of the Clermont County Sewer District (District), Sewer System, Batavia, Ohio, as of and for the years ended December 31, 1999 and 1998 as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Sewer System and are not intended to present fairly the financial position of Clermont County, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clermont County Sewer District, Sewer System, as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2000 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Cincinnati, Ohio
February 18, 2000

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
BALANCE SHEETS**

December 31, 1999 and 1998

ASSETS	<u>1999</u>	<u>1998</u>
Current assets:		
Equity in pooled cash and cash equivalents	\$ 4,505,098	\$ 3,427,801
Held by Trustees:		
Cash equivalents in segregated accounts	2,405,848	3,988,561
Investments in segregated accounts	31,324,964	25,070,110
Accounts receivable (net of allowance for doubtful accounts of \$30,923 - 1999; \$27,093 - 1998)	2,473,501	2,352,186
Inventory of supplies at cost	41,973	40,211
Prepaid expenses	-	<u>47,696</u>
Total current assets	<u>40,751,384</u>	<u>34,926,565</u>
Restricted assets:		
Equity in pooled cash and cash equivalents	-	5,000
Held by Trustees:		
Cash equivalents in segregated accounts	500,114	796,149
Investments in segregated accounts	7,647,828	7,634,748
Retainage accounts	39,208	28,737
Accrued interest	<u>162,014</u>	<u>114,445</u>
Total restricted assets	<u>8,349,164</u>	<u>8,579,079</u>
Property, plant and equipment:		
Land	2,649,150	2,649,150
Structures	42,892,162	42,892,162
Machinery	136,718,510	133,354,424
Furniture	634,210	633,236
Autos and trucks	1,360,135	1,341,542
Less: Accumulated depreciation	<u>(71,253,534)</u>	<u>(65,106,545)</u>
Net property plant and equipment	113,000,633	115,763,969
Construction in progress	<u>4,274,548</u>	<u>3,744,269</u>
Total property, plant and equipment	<u>117,275,181</u>	<u>119,508,238</u>
Other assets:		
Unamortized financing costs	1,073,509	1,122,305
Loans receivable	990,760	-
Due from other funds	501,009	572,582
Grants Receivable	<u>210,102</u>	<u>-</u>
Total other assets	<u>2,775,380</u>	<u>1,694,887</u>
Total assets	<u>\$169,151,109</u>	<u>\$ 164,708,769</u>

(continued)

The notes to the financial statements are an integral part of the financial statements.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
BALANCE SHEETS
(continued)**

December 31, 1999 and 1998

LIABILITIES AND EQUITY	<u>1999</u>	<u>1998</u>
Current liabilities:		
Accounts payable	\$ 389,603	\$ 433,665
Accrued wages and benefits	<u>475,150</u>	<u>588,304</u>
Total current liabilities	<u>864,753</u>	<u>1,021,969</u>
Payable from restricted assets:		
Current portion of long-term debt	1,493,802	1,446,701
Accounts payable	187,742	695,429
Accrued interest payable	196,595	210,137
Retainage payable	39,208	28,737
Maintenance bond payable	<u>35,525</u>	<u>25,200</u>
Total payable from restricted assets	<u>1,952,872</u>	<u>2,406,204</u>
Long-term debt	<u>50,450,508</u>	<u>50,953,550</u>
Total liabilities	<u>53,268,133</u>	<u>54,381,723</u>
Fund equity:		
Contributed capital	124,208,126	118,896,513
Retained earnings:		
Reserve for restricted assets	6,396,292	6,172,875
Unreserved	<u>(14,721,442)</u>	<u>(14,742,342)</u>
Total fund equity	<u>115,882,976</u>	<u>110,327,046</u>
Total liabilities and fund equity	<u>\$169,151,109</u>	<u>\$164,708,769</u>

The notes to the financial statements are an integral part of the financial statements.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN EQUITY**

for the years ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Operating revenues:		
Charges for services:		
Service charges	\$13,907,429	\$ 13,275,951
Plan review and inspection	112,085	71,570
All other revenues	<u>2,259</u>	<u>86,259</u>
Total operating revenues	<u>14,021,773</u>	<u>13,433,780</u>
Operating expenses:		
Personnel services	2,891,914	3,073,102
Contractual services	1,084,463	1,104,307
Maintenance and repair	370,364	571,918
Utilities	1,156,779	1,308,847
Materials and supplies	639,119	570,566
Depreciation	6,146,990	5,993,306
Other	<u>19,146</u>	<u>30,935</u>
Total operating expenses	<u>12,308,775</u>	<u>12,652,981</u>
Income from operations	<u>1,712,998</u>	<u>780,799</u>
Nonoperating revenues (expenses):		
Interest income	1,920,525	1,888,823
Change in fair value of investments	(801,036)	94,281
Interest expense	<u>(2,588,170)</u>	<u>(2,640,069)</u>
Total nonoperating revenues (expenses)	<u>(1,468,681)</u>	<u>(656,965)</u>
Net Income (Loss)	<u>\$ 244,317</u>	<u>\$ 123,834</u>

(continued)

The notes to the financial statements are an integral part of the financial statements.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN EQUITY
(continued)**

for the years ended December 31, 1999 and 1998

	<u>Contributed Capital</u>	<u>Retained Earnings</u>	<u>Total (Memorandum Only)</u>
Balances, December 31, 1997	\$113,972,069	\$(8,693,301)	\$105,278,768
Net income (loss)		123,834	123,834
Additions to contributed capital:			
Grant payments earned	216,040	-	216,040
Contributed assets by developers	1,936,230	-	1,936,230
Proceeds from assessments	177,584	-	177,584
System capacity charges	<u>2,594,590</u>	<u>-</u>	<u>2,594,590</u>
Balances, December 31, 1998	118,896,513	(8,569,467)	110,327,046
Net income (loss)		244,317	244,317
Additions to contributed capital:			
Grant payments earned	210,102	-	210,102
Contributed assets by developers	1,875,932	-	1,875,932
System capacity charges	<u>3,225,579</u>	<u>-</u>	<u>3,225,579</u>
Balances, December 31, 1999	<u>\$124,208,126</u>	<u>\$(8,325,150)</u>	<u>\$115,882,976</u>

The notes to the financial statements are an integral part of the financial statements.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
STATEMENTS OF CASH FLOWS
for the years ended December 31, 1999 and 1998**

	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income from operations	\$ 1,712,998	\$ 780,799
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,146,990	5,993,306
Change in allowance for uncollectible accounts	3,830	(444)
Decrease (increase) in assets:		
Accounts receivable	(125,145)	(273,847)
Inventory of supplies at cost	(1,762)	(1,209)
Prepaid expenses	47,696	(24,784)
Increase (decrease) in liabilities:		
Accrued wages and benefits	(113,154)	(8,101)
Operating accounts payable	<u>(44,062)</u>	<u>85,862</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>7,627,391</u>	<u>6,551,582</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from special assessments	-	177,584
Proceeds (payments) of maintenance bonds	10,325	3,788
OPWC grants received	-	216,040
Proceeds from OPWC loans	-	1,098,584
Principal paid on revenue bonds	(1,160,000)	(1,115,000)
Interest paid on revenue bonds	(2,407,600)	(2,453,150)
Principal paid on OWDA notes	(108,063)	(102,500)
Interest paid on OWDA notes	(117,109)	(122,670)
Principal paid on OPWC loans	(178,638)	(24,208)
Interest paid on OPWC loans	(28,207)	(9,746)
Construction of capital asset	(2,545,687)	(4,064,054)
Retainage receipts (payments)	10,471	(258,359)
Proceeds from sale of fixed assets	71,573	71,573
System capacity charges	<u>3,225,579</u>	<u>2,594,590</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(3,227,356)</u>	<u>(3,987,528)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(36,195,984)	(30,740,553)
Investment sales	29,127,013	27,501,801
Interest received on investments	<u>1,872,956</u>	<u>1,876,773</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(5,196,015)</u>	<u>(1,361,979)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(795,980)	1,202,075
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>8,246,248</u>	<u>7,044,173</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 7,450,268</u>	<u>\$ 8,246,248</u>
NON-CASH TRANSACTIONS:		
Contributions from developers	<u>\$ 1,875,932</u>	<u>\$ 1,936,230</u>

The notes to the financial statements are an integral part of the financial statements.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENT**

for years ended December 31, 1999 and 1998

1. Summary of Significant Accounting Policies

A. Organization

The Clermont County Sewer District (District), which includes a waterworks system and a sewer system, operates as a separate proprietary or individual enterprise fund under the direction of the Clermont County Board of Commissioners. The financial statements covering the waterworks system are issued separately from the sewer system. The County issues a separate Comprehensive Annual Financial Report which contains this sewer system as a separate enterprise fund of the County.

The customers serviced by the District are located primarily within Clermont County with a small number of customers located in Hamilton County. Customers consist of residential, industrial, and commercial accounts.

B. Basis of Accounting

The accompanying financial statements were prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the district applies all GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board of Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

C. Property, Plant and Equipment

Property, plant and equipment are stated at historical cost and updated for the cost of additions and retirements during the year. Routine maintenance and repairs are expensed as incurred. Contributed fixed assets are recorded at their fair market values as of the date donated, and depreciation on those assets is included in the Statements of Revenue and Expenses. Interest during construction is capitalized until substantial completion of the project. Depreciation is computed on the straight-line basis over the estimated useful life of the asset as follows:

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENT**

for years ended December 31, 1999 and 1998

Description	Estimated Lives (Years)
Autos and trucks	3-5
Machinery, equipment, furniture and fixtures	5-20
Sewer treatment plants and structures	20-50
Collection mains	50

D. Inventory

Supplies, materials, and fuel are stated at the lower of cost or market on a first-in, first-out (FIFO) basis.

E. Statement of Cash Flows

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments with maturities of less than three months (including restricted assets) to be cash equivalents.

F. Unamortized Financing Costs

The unamortized financing costs include bond discount, consulting fees, and attorney's fees incurred in connection with the revenue bond obligations. These costs are capitalized and are amortized on the straight-line method over the lives of the revenue bonds and are included as interest expense. The amount amortized amounted to \$48,796 in 1999 and 1998.

G. Insurance

The District participates in Ohio Workers' Compensation and Ohio State Unemployment programs. The District maintains insurance coverage for liability and property damage through policies with private carriers.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENT**

for years ended December 31, 1999 and 1998

H. Investments

In accordance with GASB Statement 31, investments are recorded fair value as stated by the District's Investment Trustees.

I. Compensated Absences

A liability is provided for accumulated unpaid sick, vacation and compensated time benefits when earned by employees. Ohio law requires that vacation time not be accumulated for more than three years. Employees with a minimum of one year of service become vested in accumulated unpaid vacation time. Unused vacation is payable upon termination of employment. Unused sick time may be accumulated until retirement. Employees eligible to retire, with a minimum of ten years of service, are paid one-fourth of accumulated sick time upon retirement. However, if employees earned sick leave prior to January 23, 1984, they are eligible for 100 percent conversion.

Such payment may not exceed the value of thirty days of accrued but unused sick leave. In general, employees are eligible to be paid for unused compensation time upon termination of employment. Sick, vacation and compensation payments are made at the employee's current wage rate.

J. Reserve of Fund Equity

The reserve of retained earnings represents amounts for restricted assets in excess of restricted liabilities that have been designated for a specific use.

K. System Capacity Charges

System capacity charges are recorded as contributed capital as they represent one-time charges to customers for the privilege of accessing the sewer system.

L. Loans Receivable

Loans Receivable represent OPWC loans where the District has entered into a loan agreement but has not drawn down all loan proceeds due to the interim status of the related construction project. The loan terms require the District to initiate loan payments even though the project is not completed and all loan proceeds have not been drawn down.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENT**

for years ended December 31, 1999 and 1998

2. Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments at December 31, 1999 are summarized below:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Held by the Clermont County Treasurer:			
Unrestricted pooled cash, revenue account	\$4,505,098	-	\$ 4,505,098
Retainage accounts	39,208	-	39,208
Amounts held by trustees:			
Construction account	275,570	976,628	1,252,198
Bond account	137,475	3,535,813	3,673,288
Replacement and improvement account	87,069	3,135,387	3,222,456
Surplus account	<u>2,405,848</u>	<u>31,324,965</u>	<u>33,730,813</u>
 Total	 <u>\$7,450,268</u>	 <u>\$38,972,793</u>	 <u>\$46,423,061</u>

Cash, cash equivalents and investments at December 31, 1998 are summarized below:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Held by the Clermont County Treasurer:			
Unrestricted pooled cash, revenue account	\$3,427,801	\$ -	\$ 3,427,801
Restricted pooled cash, construction account	5,000	-	5,000
Retainage accounts	28,737	-	28,737
Amounts held by trustees:			
Construction account	220,531	991,828	1,212,359
Bond account	439,280	3,630,269	4,069,549
Replacement and improvement account	136,338	3,012,651	3,148,989
Surplus account	<u>3,988,561</u>	<u>25,070,110</u>	<u>29,058,671</u>
 Total	 <u>\$8,246,248</u>	 <u>\$32,704,858</u>	 <u>\$40,951,106</u>

Pooled Cash held by Clermont County Treasurer

Operating and construction account funds, except for trustee funds described below, are controlled on the District's behalf by the Clermont County Treasurer's Office (County). Cash is deposited into bank accounts of the County for which the County Treasurer maintains accountability. The pooled cash of the County includes the proportionate share belonging to the District. The County is responsible for the collateralization of pooled cash balances belonging to the District. The collateralization of County funds is discussed in the County's 1999 Comprehensive Annual Financial Report.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENT**

for years ended December 31, 1999 and 1998

Retainage Accounts

Retainage accounts represent bank deposit accounts controlled by the District. These accounts represent cash retained from construction contractor payments until satisfactory completion of projects. The District's and the contractor's approval are required before funds can be released. Individual retainage accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. Any excess is collateralized through the use of the Federal Reserve book entry system to hold U.S. Government securities as collateral. The securities are registered in the name of the financial institution, not in the name of the District. As of December 31, 1999 retainage accounts totaled \$39,208, all of which was covered by FDIC Insurance.

Amounts Held by Trustees

Bond legislation requires the establishment of various accounts to be held by trustees. The District may invest these funds in direct obligations of the United States of America or highest rated bonds, notes or other evidences of indebtedness having maturity dates no longer than five years from the date of such investment.

Trustee account investments are categorized according to credit risk into the following categories: (1) insured or registered, or securities held by the District's or its agent (bank trust department) in the District's name; or (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name; or (3) uninsured, unregistered securities held by the counterparty, or its trust department or agent but not in the District's name. Money market funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	<u>Category</u> <u>2</u>	<u>Reported</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
Categorized Investments:			
U.S. Treasury Notes	\$ 15,310,271	\$15,310,271	\$ 15,310,271
U.S. Treasury Bills	23,662,522	23,662,522	23,662,522
Money Market Funds	<u>-</u>	<u>2,905,962</u>	<u>2,905,962</u>
Total	<u>\$38,972,793</u>	<u>\$41,878,755</u>	<u>\$41,878,755</u>

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENT**

for years ended December 31, 1999 and 1998

3. Restrictions on Assets

The Trust Agreement for the Revenue Bonds requires the establishment of certain trust accounts, including a Bond Account, Bond Reserve Account, Replacement and Improvement Account, Construction Account, and a Surplus Account. Cash and investments in the accounts are held by trustee financial institutions.

The Bond Account is used to accumulate periodic principal and interest payments. The Bond Reserve Account is to be funded in an amount equal to the maximum annual bond principal and interest requirement. The Replacement and Improvement Account is to be maintained with a balance equal to the greater of five percent of the amount of bonds outstanding or \$2,000,000. The Surplus Account accumulates any remaining net revenues which are available for several purposes at the direction of the County Commissioners. The Construction Account is established to pay for project costs.

4. Property, Plant and Equipment

The following summarizes the changes to property plant and equipment during 1999.

	Balance January 1, <u>1999</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>1999</u>
Land	\$ 2,649,150	\$ -	\$ -	\$ 2,649,150
Structure	42,892,162	-	-	42,892,162
Machinery	133,354,424	3,364,086	-	136,718,510
Furniture	633,236	974	-	634,210
Autos and trucks	<u>1,341,542</u>	<u>18,593</u>	-	<u>1,360,135</u>
	<u>\$180,870,514</u>	<u>\$3,383,653</u>	<u>\$ -</u>	184,254,167
Accumulated depreciation				<u>(71,253,534)</u>
Net property, plant and equipment				<u>\$113,000,633</u>
Construction in progress as of January 1, 1999				\$ 3,744,269
Additions				1,633,285
Construction projects closed				<u>(1,103,006)</u>
Construction in progress as of December 31, 1999				<u>\$ 4,274,548</u>

Assets contributed by developers and others in 1999 amounted to \$1,875,932.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENT**

for years ended December 31, 1999 and 1998

5. Long-Term Debt

For the year ended December 31, 1999, changes in long-term debt consisted of the following:

	<u>Interest Rate</u>	<u>Maturity</u>	<u>Balance January 1, 1999</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 1999</u>
Notes payable:						
Ohio Water Development						
Authority Notes	5.20-6.5%	2014	\$ 2,195,871	\$ -	\$ 108,063	\$ 2,087,808
Loans payable:						
OPWC	0-2.00%	2019	2,344,380	990,760	178,638	3,156,502
Revenue bonds:						
1984	5%	2024	5,025,000	-	100,000	4,925,000
1993	2.6-5.2%	2021	<u>42,835,000</u>	<u>-</u>	<u>1,060,000</u>	<u>41,775,000</u>
Total			<u>\$52,400,251</u>	<u>\$ 990,760</u>	<u>\$1,446,701</u>	51,944,310
Less current portion						<u>(1,493,802)</u>
Long-term portion						<u>\$50,450,508</u>

Principal payments on long-term debt for the next five years and thereafter are as follows:

<u>Year</u>	<u>OWDA Notes</u>	<u>OWDA Note Interest</u>	<u>OPWC Loans</u>	<u>OPWC Loans Interest</u>	<u>Revenue Bonds</u>	<u>Revenue Bond Interest</u>	<u>Total</u>
2000	\$ 113,929	\$111,243	\$ 169,873	\$ 17,273	\$ 1,210,000	\$ 2,359,140	\$ 3,981,458
2001	120,115	105,056	170,891	16,256	1,260,000	2,307,480	3,979,798
2002	126,639	98,532	171,929	15,217	1,315,000	2,252,530	3,979,847
2003	133,519	91,652	172,988	14,158	1,370,000	2,193,980	3,976,297
2004	140,776	84,396	174,069	13,078	1,435,000	2,131,730	3,979,049
Thereafter	<u>1,452,830</u>	<u>362,602</u>	<u>2,296,752</u>	<u>66,361</u>	<u>40,110,000</u>	<u>21,560,750</u>	<u>65,849,295</u>
	<u>\$2,087,808</u>	<u>\$853,481</u>	<u>\$3,156,502</u>	<u>\$142,343</u>	<u>\$46,700,000</u>	<u>\$32,805,610</u>	<u>\$85,745,744</u>

Notes payable at December 31, 1999, consist of \$2,087,808 due to the Ohio Water Development Authority. Payments of principal and interest are payable semi-annually through 2014 and include interest at rates ranging from 5.20 percent to 6.50 percent per annum.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENT**

for years ended December 31, 1999 and 1998

OPWC loans payable at December 31, 1999, consist of \$3,156,502 due to the Ohio Public Works Commission. Payments of principal and interest are payable semi-annually through 2019 and include interest at rates ranging from 0 to 2 percent per annum.

The District issued Sewer System Refunding Revenue Bonds, Series 1993, dated September 1, 1993, to advance refund the outstanding Series 1977, Series 1979, Series 1989 (maturing after 1995), Series 1990 and Series 1991 sewer revenue bonds of the County. The Series 1993 bonds mature on December 1 in various amounts ranging from \$1,105,000 in 2000 to \$18,480,000 in 2021, subject to prior mandatory sinking fund redemptions. Interest, at rates varying from 2.6 percent to 5.2 percent per annum, is payable semi-annually on June 1 and December 1. The District is to provide funding for the retirement of principal amounts when they mature by funding the Bond Account in varying amounts ranging from \$1,105,000 in 2000 to \$3,060,000 in 2021.

The Series 1984 bonds mature on December 1 in various amounts ranging from \$105,000 in 2000 to \$335,000 in 2024. Interest, at 5 percent per annum, is payable semi-annually on June 1 and December 1. The District provides funding for the retirement of principal amounts when they mature by funding the trustee Bond account on a monthly basis.

The revenue bond issues are subject to optional redemption in whole or in part at various redemption prices plus accrued interest for portions maturing at various times in the future. In addition, portions of these issues are subject to mandatory sinking fund redemption prior to maturing, from funds in the bond account created by the Bond Legislation through by the Trustee without action by the County.

Bond Legislation provides that the County will charge rates for the services and facilities of the system sufficient for the excess of revenues over expenditures to equal not less than 110 percent of the aggregate amount of principal and interest requirements on the bonds payable during the year (coverage ratio).

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENT**

for years ended December 31, 1999 and 1998

The coverage ratio computed under the Bond Legislation utilizing the 110 percent level is as follows:

Net income	\$ 244,317
Add items to convert net income to pledged revenues:	
Interest paid on bonds	2,394,058
Deferred debt amortization	48,796
Depreciation expense	6,146,990
System capacity charges	<u>3,225,579</u>
 Net pledged revenues	 <u>\$12,059,740</u>
 Debt service requirement during 1999	 <u>\$ 3,567,600</u>
 Coverage ratio	 <u>338%</u>
 Required coverage ratio	 <u>110%</u>

6. Defeased Debt

The District defeased various general obligation serial bonds and revenue serial bonds through refinancing and operations. Separate irrevocable trust funds were established and funded to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is not included in the financial statements.

At December 31, 1999 and 1998, the total amount of defeased debt outstanding amounted to \$25,405,000 and \$32,880,000, respectively.

7. Other Contingent Liabilities

Consent Order Dated November 7, 1989

The Office of the Ohio Attorney General brought suit on behalf of the Ohio Environmental Protection Agency relating to violations of the NPDES permits issued to the County. A consent order was placed on record on November 7, 1989 establishing certain time frames for construction of improvements to the facilities and establishing certain landmark dates for the completion of interim work.

Management of the District currently believes that the Sewer District is in compliance with the consent order.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENT**

for years ended December 31, 1999 and 1998

Special Assessment Bonds

The Ohio Revised Code provides for the issuance of special assessment bonds for sewer improvements. Under the Code, such special assessment obligations are issued by the Board of County Commissioners. As general obligation debt, the full faith, credit and revenue of the County has been pledged as security for the outstanding special assessment obligations. These bonds are reflected on the County's financial statements as general obligation bonds of the County.

If the special assessments are not paid by the taxpayers or prove to be insufficient to pay the debt service, it is the obligation of the County to pay the debt from whatever source of funds is available to it, including, but not limited to, the funds of the Sewer District. During 1999 and 1998 no payments were made by the District to the County's debt service fund.

8. Pension and Retirement

All District full-time employees participate in the Public Employees' Retirement System administered by the State of Ohio (State PERS). The plan is a cost-sharing, multiple-employer, public employee retirement system. The State PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The State PERS issues a stand-alone financial report. Interested parties may obtain a copy by written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

Income sources for the pension system include both employee and employer contributions as well as income earned on investments. Employee contribution rates are 8.5 percent. The 1999 employer contribution rate was 13.55 percent of covered payroll. Employer contributions to the pension funds are current and fully met as required by law. Annual contribution rates are determined by Ohio Revised Code.

The District's contributions to PERS for the years ending December 31, 1999, 1998 and 1997 were \$291,658, \$365,964 and \$333,903 respectively; 73 percent has been contributed for 1999 and 100 percent for 1998. A total of \$77,760 representing the unpaid contribution for 1999 is recorded as a liability.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENT**

for years ended December 31, 1999 and 1998

Other Post-employment Benefits PERS provides post retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the employer contribution rate used to fund health care was 4.2 percent for 1998 and 1997 (latest information available).

The PERS OPEB are financed through employer contributions and investment earnings there on. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to PERS OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are use to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

PERS unaudited estimated net assets available for future OPEB payments at December 31, 1998 (latest information available), were \$9,447,325,318. Expenditures for OPEB during 1998 were \$440,596,663. The number of benefit recipients eligible for OPEB at December 31, 1998 was 115,579.

During 1999 and 1998, \$90,403 and \$113,435 respectively of the District's total contribution to PERS was used for post-employment benefits.

9. Interfund Transactions

The District is charged by other County funds for administrative services based on a cost allocation plan. The charges for 1999 and 1998 were \$203,672 and \$172,371 respectively and are classified as contractual services.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENT**

for years ended December 31, 1999 and 1998

During 1997 the Board of County Commissioners approved the sale of certain fixed assets of the District to the general fund of the County. Payments for the assets are to be made over 10 years. The sale of the assets results in the District recognizing amounts due from other funds totalling \$501,009 and \$572,582 at December 31, 1999 and 1998, respectively.

10. Subsequent Events

On February 10, 2000, the Board of County Commissioners approved contracts with vendors for the operations of both the water and sewer systems. The vendors are responsible for the daily operations of treatment plants and distribution/collection systems as well as customer billing and collections. Vendors will collect operating revenues on behalf of the District and will be paid a monthly lump sum amount for operating expenses.

REPORT

CLERMONT COUNTY SEWER DISTRICT

**REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL
REPORTING**

for the year ended December 31, 1999

REPORT

CLERMONT COUNTY SEWER DISTRICT

**REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL
REPORTING**

for the year ended December 31, 1999

CLERMONT COUNTY SEWER DISTRICT
REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER FINANCIAL REPORTING

for the year ended December 31, 1999

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Foxx & Company
Certified Public Accountants

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Board of County Commissioners
Clermont County, Ohio

We have audited the financial statements of the Clermont County Sewer District, Water and Sewer Systems, as of and for the year ended December 31, 1999, and have issued our report thereon dated February 18, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Clermont County Sewer District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clermont County Sewer District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties.

FOXX & Company

Cincinnati, Ohio
February 18, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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CLERMONT COUNTY WATER AND SEWER DISTRICT

CLERMONT COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

By: Susan Babbitt

Date: APRIL 4, 2000